REPORT OF EXAMINATION

OF THE

RESPONSE INDEMNITY COMPANY OF CALIFORNIA

AS OF

DECEMBER 31, 2009

Filed June 16, 2011

TABLE OF CONTENTS

Los Angeles, California
May 6, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

RESPONSE INDEMNITY COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at the primary location of its books and records, 8360 LBJ Freeway, Suite 400, Dallas, Texas 75243. The Company's statutory home office is located at 5927 Priestly Drive, Suite 200, Carlsbad, CA 92008.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

The examination was a multi-state coordinated examination and was conducted concurrently with the examinations of its California affiliates: Financial Indemnity Company and Valley Insurance Company and other insurance entities in the holding company group and included participation from the following States: Alabama, Connecticut, Indiana, Illinois, Missouri, Oklahoma, and Wisconsin.

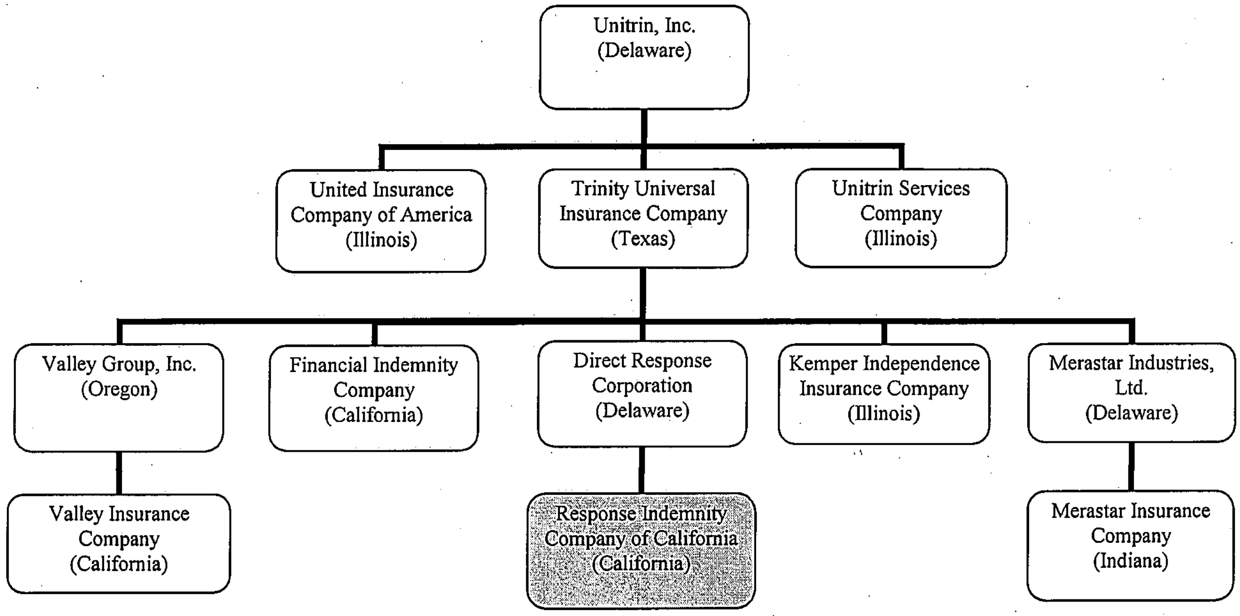
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees', and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

The Company was incorporated in California on August 28, 1997, and commenced transacting private passenger automobile insurance on May 7, 1999. The Company is a wholly owned subsidiary of Direct Response Corporation (DRC), a Delaware incorporated insurance holding company. On February 13, 2009, Trinity Universal Insurance Company (Trinity), a Texas insurance company acquired DRC and its subsidiaries in a cash transaction. Trinity is a wholly owned subsidiary of Unitrin, Inc., a Delaware company. Unitrin, Inc. is a publicly traded company on the New York Stock Exchange with subsidiaries engaged in life and health insurance business, property and casualty insurance business, and automobile finance businesses.

MANAGEMENT AND CONTROL

The Company is part of an insurance holding company system of which Unitrin, Inc. is the ultimate controlling entity. The following abridged organizational chart depicts the Company's relationship within the holding company system (all ownership is 100%):



Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence	Principal Business Affiliation
Timothy D. Bruns* Chattanooga, Tennessee	President Response Indemnity Company of California.
John M. Boschelli Geneva, Illinois	Vice President Unitrin Services Company
James A. Schulte Jacksonville, Florida	P & C Group Executive Merastar Insurance Company

* Francis J. Sodaro replaced Timothy D. Brunns, effective December 31, 2010

Principal Officers

Name	Title
Timothy D. Bruns*	President
Clark H. Roberts**	Vice President and Treasurer
David M. Elkins	Senior Vice President
Margaret L. O'Hara	Vice President and Secretary
Ronald E. Greco	Vice President

* James Allen Schulte replaced Timothy D. Bruns, effective December 31, 2010
**Gregory G. Alcazar replaced Clark H. Roberts, effective September 24, 2010

Management Agreements

Service Agreement: On October 1, 1999, the Company entered into a Service Agreement with its parent, Direct Response Corporation (DRC). The California Department of Insurance (CDI) approved this agreement on October 4, 1999. Under the terms of this agreement, DRC provides the following services to the Company: accounting and auditing; actuarial; administration; advertising, marketing, and public relations; customer services and sales; financial and cash advice or management; information technology; legal; office and general supplies; premium billing and collection; product design and development; regulatory filings and reports; storage; underwriting and risk selection; tax allocation; appointment and cancellation of agents; issuance of policies and endorsements; cancellation of policies; collection and handling of premiums and other funds; reinsurance; preparation of financial reports and reserving for claims and expenses. The Company pays DRC a fee for the services rendered on a monthly basis that includes all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the Company by DRC, but not exceeding 18% of the net direct written premium of the Company for each month. This agreement was terminated as Trinity Universal Insurance Company acquired DRC in 2009.

General Service Agreement: On August 1, 2009, the Company entered into a General Service Agreement with Unitrin Services Company (USC), an affiliate. Under the term of the agreement, USC provides the Company the following services: trade execution and investment analysis; financial accounting and reporting; purchasing and accounts payable; investment accounting; tax return preparation; tax accounting and tax advice; maintenance of benefit plans; internal audit including field audit; cash management and bank relations; financial planning and analysis of results of operations; capital project review and evaluation; corporate secretarial functions; and legal support and advice. In return, the Company pays USC for the services provided based on the premiums plus net investment income of the Company as a percentage of all affiliates of the USC and actual cost on certain services. No element of profit or markup is added thereto, all expenses being charged on an actually incurred or closely estimated basis. The CDI approved this agreement on September 25, 2009. The Company paid $15,132 in fees for 2009.

General Service Agreement: Effective January 1, 2010, the Company entered into a general service agreement with Merastar Insurance Company (Merastar), an affiliate. Under the terms of this agreement, Merastar provides the Company with services such as, marketing, underwriting, claim adjusting, reinsurance reporting, facilities, supplies, staffing, and accounting. The compensation is limited to actual cost without a profit factor built into cost. Shared or indirect expenses shall be apportioned to the Company based on cost studies and usage metrics of services provided. Direct expenses shall be charged on an actually incurred basis. All allocations shall be in accordance with Statements of Statutory Accounting Principles (SSAP) Number 70. The CDI approved this agreement on March 11, 2010 with a non-objection letter.

Computer Services Agreement: On August 1, 2009, the Company entered into a Computer Services Agreement with USC, an affiliate. Under the terms of the agreement, USC provides the Company with computer data processing using computer systems maintained by USC. In addition, USC provides the Company with consulting services, including purchase, implementation and maintenance of hardware and software. Shared or indirect expenses shall be apportioned to the Company based on cost studies and usage metric of services provided. Direct expenses will be charged on an actually incurred basis. All allocations shall be in accordance with SSAP Number 70. The CDI approved this agreement on September 25, 2009. The Company paid $7,276 in fees during 2009.

Information Technology Services Agreement: Effective January 1, 2010, the Company entered into an information technology services agreement with Unitrin Direct Property & Casualty Company

(UDPC), an affiliate. Under the terms of this agreement, UDPC provides information technology services, such as IT applications and consulting services with respect to technology shared among the Unitrin, Inc. property and casualty affiliates. The compensation is limited to actual cost without a profit factor built into cost. Shared or indirect expenses shall be apportioned to Company based on cost studies and usage metrics of services provided. Direct expenses shall be charged on an actually incurred basis. The CDI approved this agreement on December 10, 2009.

Federal Income Tax Agreement: Effective December 31, 2009, the Company entered into a Federal Income Tax with Unitrin, Inc., the ultimate parent. Under the terms of this agreement, the Company became a party of a consolidated federal income tax return with Unitrin, Inc. and its subsidiaries. The tax liability is allocated as if the Company is filing a separate return. This agreement was deemed approved by the CDI on April 20, 2010.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to transact automobile liability and automobile physical damage business in California only. In 2009, the Company wrote $1.6 million in direct premiums.

Business is marketed and produced through direct mail, web insurance portals, 'click-throughs' and its own website.

REINSURANCE

Assumed

The Company has no assumed business.

Ceded

On July 1, 2009, the Company entered into a 100% Quota Share Reinsurance Agreement (QSRA) with its second tier parent, Trinity Universal Insurance Company (Trinity). The California Department of Insurance (CDI) issued a non-objection notice to the execution of this agreement on October 27, 2009. Under the terms of this agreement, the Company cedes 100% of its ultimate net losses in respect of all losses of existing business and new business to Trinity. In return, Trinity will be entitled to receive the full net premiums on the reinsured new business; and an amount equal to the gross reserves assumed of the existing business. This agreement provides for administration of the reinsured business by Trinity, unless Trinity assigns all or part of its administrative responsibilities to its affiliates. On December 10, 2010, the CDI approved the Amended and Restated 100% QSRA.

ACCOUNTS AND RECORDS

Taxes, Licenses, and Fees

California Insurance Code (CIC) Section 1872.8(a) states, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the State of California.

The Company did not report the correct vehicle count as defined in the California Code of Regulations Section 2698.61(r) for the years 2007, 2008, and 2009. It is recommended that the Company implement the appropriate procedures to ensure the correct filings in order to comply with CIC Section 1872.8.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 5,006,459	$	$ 5,006,459	(1)
Cash and short-term investments	1,737,054		1,737,054	
Investment income due and accrued	65,963		65,963	
Premiums and agents' balances in course of collection	3,658		3,658	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	82,685		82,685	
Aggregate write-ins for other than invested assets	731	18	713	
Total assets	$ 6,896,550	$ 18	$ 6,896,532	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 0	(2)
Loss adjustment expenses		0	(2)
Commissions payable, contingent commissions and other similar charges		10	
Other expenses		3,117	
Current federal and foreign income taxes		105,893	
Net deferred tax liability		9,555	
Advance premiums		14,802	
Ceded reinsurance premiums payable		195,813	
Payable to parent, subsidiaries and affiliates		15,380	
Payable for securities		11,043	
Aggregate write-ins for liabilities		5,541	
Total liabilities		361,154	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	3,500,200		
Unassigned funds (surplus)	435,178		
Surplus as regards policyholders		6,535,378	
Total liabilities, surplus and other funds		$ 6,896,532	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$ 873,068
Deductions:		
Losses incurred	$ 526,789	
Loss adjustment expenses incurred	53,883	
Other underwriting expenses incurred	189,400	
Total underwriting deductions		770,072
Net underwriting gain		102,996
Investment Income		
Net investment income earned	$ 264,258	
Net realized capital gain	41,641	
Net investment gain		305,899
Other Income		
Net loss from agents' or premium balances charged off	$ (3,792)	
Finance and service charges not included in premiums	16,873	
Aggregate write-ins for miscellaneous income	104	
Total other income		13,185
Net income before federal and foreign income taxes		422,080
Federal and foreign income taxes incurred		80,790
Net income		$ 341,290

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 6,230,256
Net income	$ 341,290	
Change in net unrealized capital losses less capital gains tax of ($364)	(678)	
Change in net deferred income tax	(50,615)	
Change in nonadmitted assets	15,125	
Change in surplus as regards policyholders		305,122
Surplus as regards policyholders, December 31, 2009		$ 6,535,378

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2006, per Examination			$ 5,954,716
Net income	$ 576,800	$	
Change in net unrealized capital gains	10,209		
Change in net deferred income tax		51,475	
Change in nonadmitted assets	45,128		
Totals	$ 632,137	$ 51,475	
Net increase in surplus as regards policyholders			580,662
Surplus as regards policyholders, December 31, 2009, per Examination			$ 6,535,378

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

The Illinois Insurance Department, the lead state for this multi-state coordinated examination, performed a review of the Unitrin Group's custodial agreements. They noted that a number of the custodial agreements did not contain all of the required provisions in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook. The examination finding pertained to various entities within the Group, including the California Companies. It is recommended that the Company draft a new custodial agreement to remedy the deficiencies and submit it to the California Department of Insurance (CDI) in accordance with the California Insurance Code Section 1104.9.

(2) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the CDI, the Company's December 31, 2009 reserves for losses and loss adjustment expenses were determined to be reasonably stated. The Company reported no net loss and loss adjustment expenses reserves due to the 100% cession.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Taxes, Licenses and Fees (Page 7): It is recommended that the Company implement the appropriate procedures to ensure the correct filing in order to comply with the California Insurance Code (CIC) Section 1872.8.

Comments on Financial Statement Items – Bonds (Page 12): It is recommended that the Company draft a new custodial agreement to remedy the deficiencies and submit it to the California Department of Insurance (CDI) in accordance with the CIC Section 1104.9.

Previous Report of Examination

Management and Control – Management Agreements (Page 6): It was recommended that the Company comply with the terms of the Service Agreement as filed with the CDI pursuant to CIC Section 1215.4. This agreement was terminated after Trinity Universal Insurance Company acquired the Company in February 2009.

Comments on Financial Statement Items – Texas, Licenses and Fees (Page 12): It was recommended the Company review its filings and submit revised reports to the CDI. It was also recommended the Company comply with CIC Section 1872.8(a). The Company has re-filed the vehicle fraud assessment report as recommended.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

_______/s/______________
Victoria Wang, CFE,
Examiner-In-Charge
Department of Insurance
State of California